

## PROGRAM FOR THE INTEGRATION OF IRREGULAR SETTLEMENTS

(UR-0123)

### EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	The Eastern Republic of Uruguay	
<b>Executing agency:</b>	Office of Planning and Budget (OPP)	
<b>Amount and source:</b>	Borrower:	US\$ 33 million
	IDB:	<u>US\$ 77 million</u>
	Total:	US\$110 million
<b>Financial terms and conditions:</b>	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Commitment period	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	US dollars from the Single Currency Facility
<b>Objectives:</b>	<p>The general objective of the program is to improve the quality of life of the residents of irregular settlements in Uruguay, promoting their physical and social integration into their urban surroundings. In addition, to reduce the growth of this problem in the future, the program seeks to: (i) improve targeting and coordination of government policies aimed at reducing urban poverty; (ii) promote changes in urban development regulations and in institutional policies and mechanisms in the housing sector in order to increase the availability of developable land and low-income housing; and (iii) coordinate actions by the public sector and civil society organizations, encouraging community organization and social integration in the communities which the program benefits.</p> <p>Among various goals, the program will seek to reduce the growth rate of the settlements, and of the families living in them, to less than 5% annually. In addition, neighborhood improvement works will directly benefit approximately 100 settlements, with nearly</p>	

10,000 families, or 30% of the total population living in such settlements throughout the country.

**Description:**

To achieve the proposed objectives, comprehensive neighborhood improvement projects and activities to prevent the growth of such settlements will be implemented, including improvements in low-income housing policy. The program will function as a nationwide funding mechanism for neighborhood improvement projects that will be designed and executed by central and departmental government agencies. The program consists of the following components:

1. **Neighborhood improvement** (US\$92.4 million). This component funds comprehensive interventions in selected settlements, including: (a) direct investments in infrastructure, community facilities, and social services, in addition to support for families in regularizing the legal status of their properties in eligible settlements; (b) supplementary works, comprising works and services located outside the settlement areas that are necessary in order to create connections to services outside the settlements and complement the works within them; and (c) community development and preinvestment, which will be an integral part of all of the projects, including preinvestment proposals and studies, community development activities and monitoring and supervision of works. Community development includes: (i) environmental and health education; (ii) establishment of health and other social services for youth and children; (iii) support for families requiring relocation within their settlements; and (iv) vocational and other training.

The types of works and services eligible for funding are: (i) **infrastructure**: water supply, sewerage, storm drainage, roads, electric power, street lighting, environmental protection and public squares and playgrounds; (ii) **community facilities**: daycare centers, schools, health care centers, community centers and sports facilities; (iii) **resettlement**; and (iv) **titling**: technical and legal assistance for titling of properties in the settlements.

2. **Preventive strategies** (US\$2.5 million). This component consists of promoting changes in current policies and practices which contribute to the irregular settlement problem, including: (i) **review of municipal and central government urban development policies**, and a **proposal for a review of the regulatory, financial and institutional framework in the housing** sector, including identifying means of developing this market, reducing construction costs, increasing private-sector participation in funding for housing, and increasing available

land and housing opportunities for low-income populations; (ii) a **rent guarantee fund**, including a feasibility study and potential creation of a rent guarantee mechanism for low-income families; (iii) **institutional strengthening** for organizations participating in the program; and (iv) a **monitoring system** to provide the basis for monitoring the quality of the program activities and overall program impact on the problem.

**Role of the project in the Bank's country and sector strategy:**

The Bank's strategy for Uruguay focuses on supporting: (i) deepening structural reforms, in particular of the public sector; (ii) initiatives to improve the environment for increased private investment; and (iii) improving the availability and quality of social services, increasing their efficiency and targeting them more precisely, in order to maintain the favorable levels that the country has achieved and succeed in maintaining the human capital needed for sustainable growth.

The proposed program seeks to improve targeting and linkage among the agencies responsible for the government's social policy and to improve the quality and efficiency of the social services either directly provided or funded by them. It will supplement other lines of social action already funded by the Bank, particularly in the areas of health, education and citizen security.

**Environmental and social impact review:**

The Committee on Environment and Social Impact (CESI) reviewed and approved the program, having determined that: (i) the environmental and social impact of the program will mainly be positive; (ii) any negative impact is minor and will be adequately mitigated; (iii) the program includes appropriate procedures for project approval and environmental monitoring; and (iv) the family relocation procedures are consistent with the respective Bank's policies (see paragraphs 4.21 and 4.22).

**Benefits:**

The main benefits of the program relate to improvements in the standard of living of the inhabitants of irregular settlements and of the surrounding neighborhoods. Health conditions are expected to improve, as directly reflected in health indicators, due to environmental sanitation works. The social services that are to be implemented in the settlements will: (i) lead to improvements in the educational levels of the children and youth served by the schools; (ii) offer activities for youth in recreation and sports, helping to prevent delinquency and supplement schooling; (iii) promote improvements in health and development in the children served by child care centers; and (iv) train and prepare youth for work, among other benefits. These improvements will be reflected in increased income for

beneficiary families, contributing to reducing their poverty levels. Under the urban approach, the introduction of new housing policy instruments and the use of more modern and flexible forms of control over the occupation and use of land will give the local and national governments the means necessary to systematically address the problem of urban marginalization, which is one of the country's main social priorities.

**Risks:**

Institutional scheme: The program will be executed in a decentralized manner. In addition, the neighborhood improvement projects will need to be supplemented by social programs operated or funded by various national and departmental institutions. The risks involved relate to the possible lack of coordination among these institutions or a lack of efficiency or promptness in the performance of the coexecuting agencies. These risks have been mitigated by: (i) establishing a linkage system (the program's coordinating unit) as part of the Office of Planning and Budget (OPP), which occupies an appropriate position in the institutional hierarchy to coordinate the activities of institutions in various sectors; (ii) requiring that the institutions involved make a formal commitment to operation and maintenance before the decision can be made on funding the services; and (iii) establishing the alternative that allows the Program Coordinating Unit (PCU) to act directly in project execution, in the event that the coexecuting agencies do not meet the expected level of efficiency for project execution.

Project approval: Urban development activities in the settlements require prior permits from the local authorities in order to carry out works and for regularizing subdivisions. The development standards of the program settlements are, by definition, below the normal standards for subdividing property, which is a particularly critical issue in the case of Montevideo, where the majority of the settlements are located. Thus, possible problems in obtaining municipal permits could slow the execution of the program, especially in the capital. To minimize this risk, two strategies have been adopted: (i) to allow departmental governments to submit proposals for regularizing settlements, especially those that are on municipally-owned land, thereby increasing the interest and involvement of departmental governments in relaxing their regulations; (ii) to require, as a condition for the departmental governments to receive funding from the program, that they commit to revising their land subdivision regulations and create formal exceptions to current regulations for approval of the projects under the program.

The proximity of elections may make it difficult for the various parties involved at the national and departmental levels to come to an understanding. However, there is a common interest here and a consensus regarding the objectives and content of the program, and a normal implementation process is anticipated, based on the projects that have so far been agreed upon. In addition, annual technical reviews by OPP and the Bank will allow any necessary operational adjustments to be made, without affecting the program objectives agreed upon.

**Special  
contractual  
clauses:**

**Conditions precedent to the first disbursement:**

(i) official establishment of the program coordinating unit (PCU) and hiring of its strategic staff (see paragraph 3.7); and (ii) entry into force of the program's operating regulations agreed upon (see paragraph 3.8[d]); (iii) submittal of the Project Preparation Guidebook to be used for the program (paragraph 4.9); and (iv) approval of the annual operating plan for the first year of the program (paragraph 3.26).

**Other conditions:**

Within six months after signature of the loan contract, the OPP must have hired the essential UCP technical staff indicated in the Organization and Functions Manual.

**Poverty targeting  
and social sector  
classification:**

This operation qualifies as a project designed to reduce poverty and increase social equality, as described in the key objectives for the Bank's activity set forth in the report on the Eighth Replenishment (document AB-1704).

The program also qualifies as a poverty-targeted investment, since to be eligible for funding, the projects must serve marginal neighborhoods and demonstrate that there are significant basic sanitation problems, a criterion that is consonant with paragraph 2.15 of the above-mentioned document. The country has elected to use the additional 10% funding (see paragraph 4.23).

**Exceptions to  
Bank policy:**

None

**Procurement:**

The Bank's procedures for international public bidding will be followed when estimated contract amounts exceed US\$1.5 million for construction contracts, and US\$250,000 for procurement of related goods and services. Bidding for amounts less than these thresholds will proceed pursuant to local legislation, provided that such legislation does not conflict with the principles of the Bank's procurement policy.

The selection and hiring of consultants will be carried out in accordance with the Bank's procedures, pursuant to Annex C to the loan contract. The international public bidding procedures will be followed when funding resources provided by the Bank are being used and the estimated contract amounts exceed US\$200,000. The selection of consulting firms when the cost is less than US\$30,000 may be carried out through price competition between those firms that meet the technical specifications requested. It is recommended that an ex post review be conducted of procurement under the program (see paragraph 3.22).